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June 19, 2007

The Honorable Dr. Robert Sawyer
Chair, California Air Resources Board
1001 I Street
Sacramento, CA 95812-2815**Re: Comments on Discrete Early Action Proposals**

Dear Dr. Sawyer:

Under AB 32, the California Air Resources Board (CARB) is developing proposals for early action measures in order to achieve Green House Gas (GHG) emission reductions that can begin immediately, prior to implementation of broader GHG emissions reduction measures by 2012. On April 20, 2007, the CARB staff issued its proposal recommending three early action measures for listing by the board as "discrete early action measures:" adoption of the Low Carbon Fuel Standard (LCFS); a prohibition on sales of the refrigerant H-134a for home maintenance of motor vehicle air conditioning; and increased capture of methane gas from landfills. The CARB staff also listed thirty-three additional early action measures for potential consideration at a later date by CARB or for consideration by other agencies with jurisdiction over activities associated with GHG emissions.

PG&E commends the CARB staff for moving forward expeditiously with its early action proposals, and in particular supports the Low Carbon Fuel Standard (LCFS) as one of the primary early actions to be adopted under AB 32.

However, PG&E also believes that the LCFS and other early actions that may involve increased use of electricity or gas, such as port and truck stop electrification, must be designed in a way that avoids discouraging utilities from providing the increased infrastructure and services needed to implement those early actions. In particular, the LCFS and other electrification initiatives provide an opportunity for significant GHG reductions in the transportation sector, but also require initiatives in the utility sector that may increase emissions.

In order to avoid creating disincentives for these electrification initiatives, PG&E recommends that CARB state clearly that increased emissions in the utility sector that are a consequence of CARB's early action initiatives in other sectors will not be counted under AB 32 as emissions by individual sources in the utility sector or by the sector as a whole, but instead will be netted

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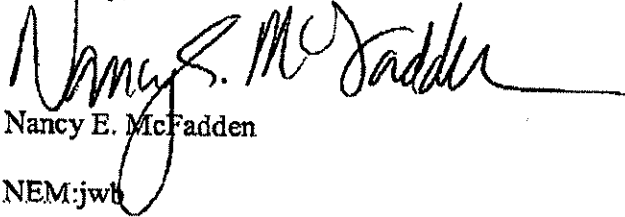
against the emissions reductions attributable to those early actions in the transportation and other non-utility sectors. This policy clarification by CARB will help jump start the investments and actions in the utility sector that are needed to achieve CARB's early actions on the schedule contemplated by AB 32.

Additionally, as you may know, the California Public Utilities Commission (CPUC) approved an electric tariff known as "AG-ICE" for use by utility customers in the agriculture sector. The tariff uses incentives to promote the electrification of diesel engines used for irrigation pumping. PG&E expects to contractually secure in excess of approximately one million metric tons of CO² reductions per year under this "voluntary early action" program. A key assumption in the CPUC approval of AG-ICE was that CO² emission reductions would be retained by the utility on behalf of its customers. CARB has expressed written support for this program to the CPUC, and we believe CARB should recognize AG-ICE as a positive example and precedent for voluntary early action measures under AB 32.

Finally, PG&E supports staff's recommendation for development of guidance or protocols in mid-2007 to establish a process for recognizing voluntary early actions. We look forward to participating in this effort and supporting CARB in its efforts to ensure that parties taking voluntary early actions receive appropriate credit as required by AB 32. To this end, we ask CARB to clarify in its guidance or protocols that parties undertaking or assisting GHG emission reduction projects listed in Tiers 2 and 3 of staff's proposal are eligible to receive early action credit for the resulting GHG emission reductions. This clarification is needed in order to make clear that offset and early action projects identified but not mandated in this early action rule are eligible for early action emissions reduction credits under the voluntary early action requirement in AB 32 and are not excluded from receiving financial and other support on a voluntary basis.

Thank you for your consideration. We would be pleased to answer any questions or discuss our comments further with you or CARB staff at your convenience.

Sincerely,



Nancy E. McFadden

NEM:jwb

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